



131 SOUTH ROBERTSON STREET (70112)
P.O. BOX 61780
NEW ORLEANS, LA 70161-1780
(504) 561-2811
FAX (504) 561-2837

RULES PROCESSING TEAM

March 24, 2005

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Department of the Interior
Minerals Management Service
Attention: Rules Processing Team
381 Elden Street, Mail Stop 4024
Herndon, Virginia 20170-4817

Re: Comments on Minerals Management Service Proposal to Increase Base Rentals and the Use of Sliding Scale Rentals in the Gulf of Mexico (GOM) Lease Sales; 70 Federal Register 10111-10112 (March 2, 2005)

Murphy Exploration & Production Company – USA (Murphy) owns and operates numerous federal offshore leases in Gulf of Mexico and is one of the pioneers of the offshore industry. Murphy is pleased to have this opportunity to comment regarding the MMS's consideration of a possible increase in base level rentals for all newly issued leases in the Gulf of Mexico (GOM) and the implementation of a sliding scale component for rentals on leases located in deepwater.

Although increasing rental rates to adjust for inflation is reasonable and the concept of modifying base rental rates to compensate for changes in the economy are expected, MMS gives no real justification for proposing a 25% increase, on leases located in the shallow waters of the Gulf, which is greater than the calculated inflation rate since the last shallow water rental increase.

Although the proposed new shallow water rental rate exceeds the rate of inflation, it is not likely to have an adverse impact on future leasing activity in the shallow waters of the Gulf. However, the addition of a sliding scale for deepwater leases raises serious concerns.

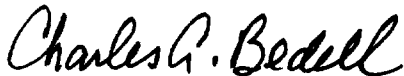
When the sliding scale component is added to the proposed lease rental rate on deepwater leases not drilled during their primary term, the actual rental increase exceeds 55.67%. In real dollars, this means that the cost of holding an un-drilled GOM deepwater lease after acquisition for ten years would cost lessees \$672,480.00, compared to the \$432,000.00 which would be paid under present rates. This increase of \$240,480.00 per lease will not "encourage exploration drilling in deepwater areas earlier in the lease term." While this may seem logical in theory, the timing of development decisions has to do with information gathering, competing internal economic demands, the pace of nearby development, and other similar factors.

MURPHY
EXPRO

The flexibility designed into the leasing system for deepwater leases regarding the extended period within which an operator may initiate exploration activities is especially important to smaller companies and their ability to compete for all OCS leases. The result of the proposed increase could have serious unintended consequences on the ability of smaller companies to take part in deepwater leasing.

In summary, while adjusting rentals to compensation for changes in inflation may be reasonable and expected, Murphy is of the opinion that the proposed rental increases for deepwater leases beyond a fixed rate would penalize potential lessees like Murphy—who are now willing to assume the risk and invest large amounts of capital to explore these frontier areas. Therefore, Murphy urges the MMS to eliminate any sliding scale rental component to deepwater leases and only adjust rental rates for shallow and deepwater leases at a fixed rental rate during the primary term.

Yours truly,

A handwritten signature in black ink, reading "Charles A. Bedell". The signature is written in a cursive, flowing style.

Charles A. Bedell, Manager
Environment & Government Affairs